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I.R.A. DOCKET ROOM

Of Counsel

H LaDon Baltimore

June 17, 2004

Tennessee Regulatory Authority
Attn Sharla Dillon
460 James Robertson Parkway
Nashville, TN 37238

RE: Application of Hickory Star Water Company, LLC to Increase Its Rates; TRA
docket No 04-00044

Dear Sharla:

Enclosed please find the original and 14 copies of the Direct Testimony of William W. Geary, Jr on Behalf of Hickory Star Water Company, L L.C. in the above-referenced matter. Please return one date stamped copy in the SASE also enclosed. Thank you for your assistance. Please do not hesitate to contact me should you have any questions.

Sincerely,



H LaDon Baltimore
Counsel for Hickory Star Water Company

LDB/dcg
Enclosures

cc Joe Shirley, Esq , Assistant Attorney General
William W Geary, Jr

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION FOR APPROVAL OF THE
MINIMUM RATES FOR THE AREA
SERVED BY THE HICKORY STAR
WATER COMPANY, L.L.C.**

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DOCKET NO. 04-00044

**DIRECT TESTIMONY OF WILLIAM W. GEARY, JR. ON BEHALF OF
HICKORY STAR WATER COMPANY, L.L.C.**

1 Q. PLEASE STATE YOUR NAME FOR THE RECORD

2 A My name is William W Geary, Jr

3 Q WHAT IS YOUR POSITION WITH THE PETITIONER, HICKORY STAR WATER
4 COMPANY?

5 A I am the Managing Member of Hickory Star Water Company, LLC

6 Q. WOULD YOU BRIEFLY DESCRIBE YOUR DUTIES WITH HICKORY STAR
7 WATER COMPANY?

8 A. As the managing member, I determine the policies of the water company including
9 expansion plans and establishing budgets, and I supervise the operations of the company

10 Q ARE YOU AN EMPLOYEE OF HICKORY STAR WATER COMPANY?

11 A No

12 Q BY WHOM ARE YOU EMPLOYED?

13 A I am employed by Carlsberg Management Company

14 Q. WHAT IS THE RELATIONSHIP BETWEEN HICKORY STAR WATER COMPANY
15 AND CARLSBERG MANAGEMENT COMPANY?

16 A Hickory Star Water company is a wholly-owned subsidiary of Hickory Star, LLC which
17 owns the Hickory Star Marina and Campground in Union County, Tennessee Hickory
18 Star in turn is owned by Carlsberg Recreational Properties, Inc , a California corporation
19 Carlsberg Management Company is affiliated with Carlsberg Recreational Properties,
20 Inc and manages the operations of Hickory Star and the water company Carlsberg
21 Management collects the revenues, pays the bills, and employs all of the personnel at
22 Hickory Star

23 Q HOW AND WHY WAS HICKORY STAR WATER COMPANY FORMED?

1 A Hickory Star Water Company was granted authority on November 24, 1999 Prior to this
2 date, the area was served by a spring near Norris Lake The water company was formed
3 at the request of the Division of Water Supply of the State of Tennessee because of a
4 concern over ground water intrusion into the spring. There was also concern that the
5 spring would not service the increased number of customers in the area. The water
6 company currently serves 65 customers Plans are underway to meter 40 more
7 recreational vehicle spaces to add more customers The water lines in the service area
8 are very old, and the Division of Water Supply has ordered Hickory Star Water Company
9 to install new water lines The project is in three phases Phase one has been completed,
10 and phases two and three will be completed over the next two years

11 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12 A The purpose of my testimony is to provide information in support of the petition of
13 Hickory Star Water Company ("Company") for a water rate increase and a tap fee
14 increase

15 Q. WHEN WAS THE COMPANY'S PRESENT RATE ESTABLISHED?

16 A The present rate was established in 1999 when the Authority granted a Certificate of
17 Convenience and Necessity to the Company

18 Q HAVE THERE BEEN ANY RATE INCREASES SINCE 1999?

19 A No

20 Q WHY IS THE COMPANY FILING THIS PETITION FOR A RATE INCREASE?

21 A The company is filing this petition for a rate increase because, as stated previously, the
22 water lines are very old and the Division of Water Supply has ordered the Company to

1 install new water lines The water company has sustained continual losses throughout its
2 history Operating losses for the past three years are as follows:

3	<u>Fiscal Year Ended</u>	<u>Net Loss</u>
4	December 31, 2002	\$59,518
5	December 31, 2003	\$44,721

6 Q WOULD YOU PLEASE SUMMARIZE THE COMPANY'S PETITION?

7 A The petition seeks an increase in its monthly water rate for a minimum of 2,000 gallons
8 from \$18.36 per month to \$36.76 per month The Company also seeks to increase its tap
9 fee from \$585 to \$850, and it wants the right to pass on increases in costs to purchase
10 water from the City of Maynardville.

11 Q CAN YOU IDENTIFY SPECIFIC REASONS WHY THE COMPANY WILL HAVE A
12 PROJECTED OPERATING LOSS FOR THIS YEAR?

13 A. Yes The Company has not had a rate increase since 1999 when the rates were
14 established. The water lines in the service area are very old and the Division of Water
15 Supply of the State of Tennessee has ordered the Company to install new water lines.
16 The Company also has operating costs for maintenance, repair, and administrative
17 personnel costs The Company will also have additional professional fees for this year
18 due to the filing of the petition for a rate increase Our projections are that the Company
19 will continue to sustain a loss of \$54,583 in the current fiscal year if the rate increase is
20 not granted. The Company will incur a loss of \$31,325 if the rate increase is granted.

21 Q DO YOU HAVE ANY ADDITIONS OR CORRECTIONS TO THE PETITION AS
22 FILED?

23 A. Yes We would like to make several changes to the petition.

1 I. Test and Attrition Year

2 We wish to file corrected attrition year and test year income statements, attached
3 as Exhibit 1 to this testimony. The corrections are to correct the test year and attrition
4 year to use the proper accounting for the Company. In previous years, the Company has
5 kept its books on an accounting method required by the Internal Revenue Service instead
6 of the method required by the Tennessee Regulatory Authority.

7 II. Depreciation Expense

8 The assets of the Company consist almost entirely of water pipes located
9 underground. These lines are being replaced as discussed above. The Company
10 proposes to depreciate the water lines over 25 years or 4% per year. Previously, the
11 Company used a higher depreciation expense as permitted by the IRS guidelines.

12 III. Administrative Fee

13 In previous years, the Company assessed a \$2.50 administrative fee to its
14 customers. This fee was assessed to pay for a third party to prepare the bills. The
15 Company discontinued charging the fee in May 2004 because the staff of the TRA
16 pointed out that the fee was not authorized in 1999. The total cost collected through
17 April 30, 2004 is \$5,362.50. These sums will be credited to the customers over a 12
18 month period following the conclusion of the rate increase hearing.

19 IV. Water Loss

20 In 2003, the Company purchased 1,730,000 gallons of water from the City of
21 Maynardville. It rebilled 1,661,000 and suffered a loss of 21%. The loss is due to
22 leaking water lines and a deliberate policy of flushing lines in order to clean the lines to
23 eliminate discoloration of the water. This flushing is intensive now because the water

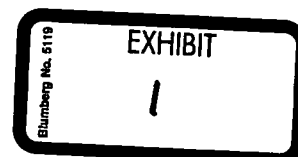
1 company has old lines Once the replacement of lines is completed in 2005, flushing of
2 the lines will not be as frequent and the loss should decrease. In spite of the flushing
3 operation, the Company believes that the loss percentage compares favorably with rural
4 water companies For example, our supplier of water, the City of Maynardville, suffered
5 a loss of 45% in recent years Other water companies in the area suffered losses ranging
6 from 15% to 25% This information was obtained from plant operators for the City of
7 Maynardville

8 Q WILL THE COMPANY CONFORM WITH WATER UTILITY ACCOUNTING?

9 A. Yes.

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11 A Yes.



HICKORY STAR WATER COMPANY, LLC

INCOME STATEMENT

TEST YEAR

YEAR ENDED DECEMBER 31, 2003

	As Reported	Adjusted	Corrected	
GROSS REVENUE				
WATER	\$ 31,418		\$ 31,418	
SEWER	15,000		15,000	
TAP FEES	4,655	\$ (4,655)	-	(Note 1)
SERVICE FEE	1,200	(1,200)	-	(Note 2)
TOTAL GROSS REVENUE	52,273	(5,855)	46,418	
OPERATION & MAINT EXPENSE				
SALARIES	12,000		12,000	
PURCHASED WATER	25,821		25,821	
CHEMICALS	599		599	
CONTRACTUAL SERVICES	3,942		3,942	(Note 3)
INSURANCE	296		296	
REGULATORY COMMISSION EXPENSE	1,008		1,008	
MAINTENANCE & REPAIRS	10,642		10,642	
TRAVEL	989		989	
FRANCHISE TAX	202		202	
SEWER TREATMENT	14,469		14,469	
DEPRECIATION EXPENSE	27,026	(14,545)	12,481	(Note 4)
TOTAL OPERATING EXPENSES	96,994	(14,545)	82,449	
NET OPERATING INCOME	\$ (44,721)	\$ 8,690	\$ (36,031)	

Note 1 - Tap fees will be applied to fixed assets in 2004 Totals for 2001, 2 & 3 = \$36,431 21
are 1,170 + 30,605.98 + 4,655 23 = 36,431 21

Note 2 - Service fees will be refunded to Hickory Star Marina (payer) in 2004

Note 3 - Contractual services include management fees and customer billing services

Note 4 - Depreciation expense will be reduced by 29,850 34 in 2004 Change from MACRS to SL and reduction of basis by tap fees 1999 +455 50 2000 +870 2001 (9411) 2002 (7219 83) 2003 (14,545 01)

HICKORY STAR WATER COMPANY, LLC

INCOME STATEMENT

ATTRITION YEAR

12 MONTHS ENDING JUNE 30, 2005

	As Reported	Adjusted	Corrected	
GROSS REVENUE				
WATER	\$ 54,576		\$ 54,576	
SEWER	15,000		15,000	
OTHER	5,855	\$ (5,855)	-	(Note 1)
TOTAL GROSS REVENUE	75,431	(5,855)	69,576	
OPERATION & MAINT EXPENSE				
SALARIES	12,360		12,360	
PURCHASED WATER	49,705		49,705	(Note 2)
CHEMICALS	617		617	
CONTRACTUAL SERVICES	3,942		3,942	
INSURANCE	889		889	
REGULATORY COMMISSION EXPENSE	1,008		1,008	
MAINTENANCE & REPAIRS	3,810		3,810	
TRAVEL	989		989	
FRANCHISE TAX	202		202	
SEWER TREATMENT	14,903		14,903	
DEPRECIATION EXPENSE	27,026	(14,550)	12,476	(Note 3)
TOTAL OPERATING EXPENSES	115,451	(14,550)	100,901	(Note 4)
NET OPERATING INCOME	\$ (40,020)	\$ 8,695	\$ (31,325)	

Note - 1 Other fees tap fees and administrative fees are applied to fixed assets or not charged

Note - 2 Purchased water has increased to the current billings

Note - 3 Depreciation expense has be changed from Internal Revenue percentages to straight line less tap fees

Note - 4 Operating expenses are increased 3% to reflect increase in the consumer price index